- Note: His arrival in Nanking has not yet been reported. October. Prior to any radical change of Moscow policy vis-a-vis China, the USSR (through Petrov) will informally approach the Chinese Central Government and suggest a settlement of some of the urgent differences between the two countries. For instance, Petrov has final instructions regarding the settlement of the problem of the administration of the city of Dairen. The fall of Chefco to the Nationalists, coupled with the strengthening of Nationalist military forces in south Manchuria, makes it easier to find means for a compromise settlement of the Dairen question which will permit a Chinese Nationalist administration to start functioning in that city. Soviet leaders believe that with this as a beginning it will be easier for the USSR to persuade former pro-Soviet elements of the left wing of the Kuomintang to influence the Central Government and Chinese public opinion toward adopting a more friendly policy toward the USSR.
- (2) The success of this new Soviet approach will depend on the outcome of the struggle for northern Manchuria. If, as seems highly probably, the Chinese Communists succeed in expelling all Nationalist forces from northern Manchuria and in consolidating their power in that area, Shanghai Soviet leaders are convinced that the situation will compel Chinese Nationalist politicians to accept USSR mediation and effect a compromise. Such a development must be preceded by a prelirinary agreement on Dairen and improvement in Sino-Soviet relations. Petrov is reportedly instructed to prepare the way for this new approach to the discussion of Sino-Soviet relations.
- (3) Shanghai Soviet leaders believe that Petrov can achieve only temporary success in this attempt at a Sino-Soviet diplomatic rapprochement. The aim of this new move will be: (a) to win time for the final change in Soviet policy in the Far East, a change which must be expected in early 1948; and (b) to divide Kuomintang and Chinese public opinion regarding the USSR. This must be accomplished before a radical change in USSR policy in the Far East can actually take place. This radical change will be directed against the United States, and against Sino-American relations.

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The following are rumors among changhai Soviet circles which complement Khalin's comments: (1) 3. Lozovsky, Chief of the Informbureau in Irkutsk, visited north Korea and Karbin incegnito. (2) Following his appearance in these areas, rumors spread that military maneuvers on a large scale must be expected this autumn in the Soviet Far Mast near the Korean and Lanchurian borders. (3) At the same time as these military maneuvers take place, uprisings in the Ili kiver region of Sinkiang must be expected.

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These rumors were discussed in the Shanghai Soviet Club with the conclusion reached that it will be better to speed up the repatriation as it will soon be too complicated for Soviet citizens to either live in or to leave China. Competent Shanghai Soviet political observers such as M. A. Borodin, V. V. klarin, I. I. Druri and others believe that such rumors signify the Leginning of a new era of Sino-Soviet relations in which China will finally be pressed to choose between the USSR and the United States.

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